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## Evolution of State and Municipal Administration and Accountancy

BY HAROLD D. FORCE

It is my hope in writing this article to present a brief survey of the development of governmental accounting in our states and municipalities. Their technical aspects will be omitted.

It was not until some twenty years ago that definite progress towards improvement began. Prior to that time there had been little literature or recorded experience upon the business aspects of government. Apathy of the average citizen, except for the election of officers; irresponsiveness to the appeals of public-spirited citizens; laissez-faire ideas regarding government—all were largely due to inability to understand the functions and responsibilities of government. Inability to understand conditions was mostly due to lack of adequate and general information concerning them. Leaders of enlightened and intelligent public opinion were few. Government machinery had been allowed largely to take care of itself.

The well-intentioned men who entered government service found it not of the same standard or responsibility as business employment, and, so finding it, morale was lowered. Political influences dominated it. Conditions were favorable to neither integrity nor zeal. Fifty per cent of city budgets (at least \$500,000,000 in the whole country) was invested in personal service. Waste of time and labor as well as of material and properties was enormous.

Large resources were in the hands of public officers and employees who were without any system of administration which required adequate accounting, reporting or preservation of evidence to determine wherein waste occurred or by which responsibilities might be fixed. Current information concerning government transactions was opposed by officers and employees afflicted by inertia towards change or affected by tradition and habit, as well as by those disposed to wrong-doing. States and municipalities were without sufficient data upon which to base economy of operation. There was still less disposition to obtain a true basis for judgment as to the relations of cost to service rendered. It was not realized that every dollar wasted, every

dollar wrongfully diverted, whether in cash or material, every hour wasted by an employee, meant more sickness, fewer transportation facilities, lack of protection to the weak, lack of opportunity to the individual, greater misery and poverty for the poor, greater dissatisfaction and discontent for the average citizen through burdensome taxation. Inequitable public taxation also adversely affected employment in private industry, as it does today.

Distribution of the tax burden was not understood. It is probably not yet generally realized that state and municipal taxes are not entirely paid for by the direct taxpayer, the property owner or industrial employer; that the latter merely pays the bills and passes the cost to those with whom he deals. Each member of the community is the indirect taxpayer, paying in rent and in all other prices connected directly with his cost of living and privileges of doing business.

The basis for borrowing money in large cities was the valuation of the properties of taxpayers, i. e., the "tax valuations," a certain percentage representing borrowing capacity, also called "debt limit," or licence to go into debt. This represented "municipal solvency."

Borrowing for expenditure purposes, intended for expenses as well as for permanent properties, could go on increasing and be kept up to the legal limit as long as the property values of the growing city increased with population, irrespective of whether the borrowing was justified or not.

In all large cities the rate of increase in per-capita debt was greater than the rate of increase in population, while annual interest and redemption charges, together called "debt service," exhibited the highest per-capita cost of any branch of annual expense or budget item. Whether expenditure represented value received or what was the true financial position of cities was not known nor obtainable from records or accounts.

The tax budget, properly planned and administered, has been found to be the most important instrument of financial control for governments, national, state and local. The budget system, upon scientific accounting principles, which comprehend statements of revenue, expenditure and the surplus of each fiscal year, has grown up in recent years for the use of well managed states and cities. It is too comprehensive a subject for review here.

It was not the effective instrument which it is intended to be at the time of which I am writing. Budgets did not represent complete pictures of annual financing. Where they represented merely estimates of operating expense they were almost always "padded" so as to meet the expected "cuts" by legislatures and city councils. This and other loose practices still exist where an inefficient, unscientific budget system is absent. Lump sums were usually requested, and the requests were unaccompanied by statements of specific or functional purposes for which the money was to be expended. If more money than needed was granted it was used nevertheless. If the granted appropriations proved to be short, bond issues were required to meet the deficiencies. This practice, together with the deficiencies due to failure to provide allowances for uncollectible taxes, cast a burden upon the revenue of ensuing years.

Since no state or city possessed a system of accounting which accurately reflected the costs of operation, accurate estimates of expense for a year or two years in advance were impossible, even were officers disposed to submit them.

#### CONDITIONS OF TWENTY YEARS AGO IN NEW YORK

The conditions existing twenty years ago in the city of New York were characteristic of all large cities of the time. Publicists and municipal experts who had made careful investigations into the city's financial affairs and accounting conditions estimated that, out of \$80,000,000 for personal service in that city's tax budget, fully 25%, or close to \$12,000,000, was lost through collusion, idleness and inefficiency. For the \$15,000,000 worth of supplies purchased at wholesale, higher prices were paid than could be obtained by a citizen at retail. There were no standard trade specifications for use of purchasing officers. The city paid cash but did not receive discounts. Competitive bidding was ineffectively carried out. The letting of contracts was unduly delayed and often subject to collusion. Millions of dollars worth of supplies were stored without adequate stores accounting. Weights, qualities of goods and deliveries were ineffectively checked up and insufficiently inspected. The estimated annual loss through these various unbusinesslike methods alone was placed at \$5,000,000. Real estate to the value of from five to twenty-five millions of dollars was purchased each year and double prices were often paid.

In several departments of the city annual operating expenses were paid from the sale of long-term bonds or corporate stock. The department of docks, one of the chief municipal industries, had its annual operating expenses so paid during many years until the law was finally changed. The purchase of a horse, for instance, might be paid for out of the proceeds of a sale of 50-year bonds, although the horse lived only ten years. Similar financial wastes occurred in purchasing the harness, cart and oats. It was estimated that \$25,000,000 of the city's long-term debt represented payment of current expenses.

At the same time it was rumored that another city had been paying its expenses out of trust funds!

The city's entire accounting system was intended to show as nearly as possible whether a department's officers kept within the appropriations or not, and not at all whether there were or were not accounts to indicate efficiency and inefficiency. It could not be told, for instance, without special investigation by a department's accountant, what it cost to carry a passenger or a ton of freight to Staten Island, so as to compare with private operation. Nor was the unit cost of any other public service obtainable.

The city's rates of increase in per-capita debt and debt service were greater than the rate of increase of population.

There were several hundred accounts upon the comptroller's books which represented assets or liabilities, but no one knew which. There could be prepared no semblance of a balance-sheet. Financial reports did not give an intelligent view of the city's true financial position.

#### EFFORTS TO CORRECT CONDITIONS OF TWENTY YEARS AGO

Over twenty-five years ago professional and public interest was beginning to be aroused in the large states and municipalities concerning public administration, finance and accountancy. The increasing burdens of taxation and public debt, diversion of public funds to other than public uses, rapid increase in budgets, costs of government and costs of living affected by government, as well as the lax business methods, were becoming more widely known. The public press; writings and addresses of publicists; investigations of taxpayers' organizations, civic associations, municipal experts and public accountants were beginning to inform the public mind.

Active steps towards the correction of conditions had their beginnings in organizations for that special purpose, chief among which was the National Municipal League organized to stimulate interest for reform in municipal administration. The United States census bureau was directed to obtain comparable statistics of cities and states, and to apply uniform classifications to methods of reporting to the federal government. The bureau of municipal research of New York was created for research into government conditions and methods; to inform public opinion; to coöperate with officers; to aid in fixing responsibility for waste of public funds; to establish methods to insure fidelity and efficiency in administration, and generally to effect the pioneer work so greatly needed at that period. Originally formed for New York service this bureau has since given valuable service to many other cities and to state governments.

The plans to install in that financial center of the new world a more modern system of financial records and accounts were of prime importance. With the adoption and proper administration by that city of scientific methods of accounting, and of currently reporting the details of municipal business, the basis would be laid for efficient administration in all branches of city activities. It would also constitute an example to be followed by all other progressive cities and states.

Comptroller Metz of New York had been elected upon the issue of "a business man for the head of a city's business office." His determination to give the city such an administration had been found by him, after two years in office, to be impossible without a complete reorganization of accounting. The \$500,000,000 and more of business passing through his office each year was found impossible to control. His statement was, "The city's money was being thrown away."

During the years 1906-1908 the bureau of municipal research had been making an intensive investigation of the city's methods and conditions at the request of the comptroller. Its report to him in 1908 was followed by a comprehensive plan of reorganization. The committee on finance and currency of the Chamber of Commerce of New York reported upon the subject as follows:

"No other issue has been presented to our citizenship in years so vital to the permanent welfare of Greater New York. All other questions must take second place to this, for every measure of municipal advance depends upon honest,

economical administration of the city's finances, and this can not be secured without a proper system of accounting."

In these early days of administrative and accounting reform the cities of Philadelphia, Chicago, Baltimore, Boston and several other cities in Massachusetts, were notable. Similar conditions prevailed and similar comprehensive efforts were put forth to correct them.

#### CONDITIONS OF TODAY

There has been undoubted improvement in many directions in those cities and states which have been disposed to be progressive since the period I have described. The forces working for improvement have not ceased to function. They have increased rather than diminished. There exists today a wide range of published information concerning the business side of government. There is, however, a constantly enlarging field in which work must be done. Growth of commerce and increasing populations have made government functions and operations more and more complex in all the larger industrial centers, making administrative control still more difficult.

Audits made by public accountants from time to time reveal that there are still backward conditions in many states and in their political subdivisions, and in still more cities. In some instances the conditions described as existing twenty years ago still prevail. Some state legislatures are indifferent about the revision of laws which hamper procedure.

An important obstacle to reorganization in state and city governments has been the cost of devising and installing the methods required, and in supervising and training the clerical staffs. Citizens have been reluctant to pay for such service, little understanding its significance and importance to them. A business corporation knows that an adequate system of accounting will pay for itself in benefits derived. It has also been the experience of cities and states that accounting investigations and reforms have, by direct savings, more than paid the entire cost. A recent audit of state departments in Pennsylvania resulted in the reclaiming to the state of uncollected items amounting to \$569,498.61, and cash surpluses aggregating \$2,080,835.42 held by departments, boards and commissions were disclosed as belonging to the state. The public accountants estimated further that approximately

\$2,500,000 could have been collected or saved if different methods had been pursued.

There is space here for only a few illustrations of the conditions today in this country.

The state of Delaware, although next to the smallest state in size, has been progressive. It was the first to enter the Union, and it has been among the first to provide business-like conduct for its various government activities. About ten years ago public accountants were engaged for the purpose of improving the budgeting and accounting methods of the state.

Governor Buck of Delaware during the past year has undertaken one of the most progressive steps yet taken by the states to establish modern accounting methods and a more businesslike administration of the state government. At his request a survey was made by public accountants of the entire state's financial, budgeting and accounting methods for the purpose of revision. The methods installed in past years were becoming inadequate to meet the state's growth and newer standards. He saw that accurate budgets can never be prepared unless based upon accurate costs of operation, and has taken the lead in providing for the proper basis as it is provided for in industrial organizations.

With a control over this information at a central department of state accounting, and quarterly revisions of budget requirements for each institution, budget accuracy and a proper check upon expenditure will be made possible. A system of stores and property accounting is also being installed.

Although not a part of the main accounting system it is intended to provide for property depreciation upon statistical records, by means of which proper rates can be determined for the future.

It is hoped also ultimately to produce a state balance-sheet, allowing for the essential differences in the financing of governmental and industrial organizations. If scientifically and practically worked out it can not fail to present a view of the state's true financial position.

The revenue of the state has already been increased through recommendations made in the report upon the survey.

At the request of Governor Larson the state of New Jersey has had a survey made of conditions existing in that state. The survey was made by the National Institute of Public Administration, successor to the bureau of municipal research. It was recommended that many state boards and commissions be abolished



as useless or practically so. Others were found to exercise duplicated functions or functions not adapted to them. There was "no real budget"; it was a mere "makeshift financial proposal." The legislature passed upon only a part of the annual budgetary requirements, the larger portion being met through "continuing and indefinite appropriations, mill levies and special funds."

It is needless to say that an entire administrative, financial and accounting reorganization was recommended and the state is expected to revise its entire budget system and other methods.

Governor Roosevelt of New York a few months ago appointed a commission to function as the "New York state economic council." Its first duties were to make a thorough survey of the entire state's administrative and financial machinery and of public expenditures, in both state and local governments, with the "object of lightening the greatest single burden in the taxpayer's cost of living." The committee has recently reported that "the public can not stand any further burden of New York state taxation. Not in recent years have taxes been such a burden as this year. While the federal government has been paying off its national debt New York has enormously increased both its debt and its budget. The increase alone of last year's budget over the previous year was one and one-half times the entire cost of running the state twenty-five years ago."

The council's preliminary investigations show that "the cost of government, federal, state and local, had grown from \$135 in 1913 to \$460 per family in 1929," and that "every person gives the equivalent of 6 weeks of his working year to cover this cost." "At least \$10,000,000 of the state's taxes were annually wasted." To check this waste the council recommends, together with important administrative changes, the introduction of uniform cost accounting in all state departments and institutions. This committee realizes the value of accurate costs of public services as a condition precedent to accurate budgeting and control over expenditure.

The state of Utah, in the year 1924, had no budget legislation whatever. Counties, cities and school districts might voluntarily adopt budgets, which did not, however, necessarily control revenue and expenditure. Neither the state nor its governmental subdivisions kept adequate accounts. Since that period this state has passed laws which require that all cities, counties and school districts operate under a modern budget plan, and that all

counties and cities of the first and second class be audited by competent public accountants. Such requirements properly carried out will bring this state a long way toward the business ideal for governments. The situation in Utah is now far more satisfactory than in a majority of the states.

To summarize it can be said that in about one-third of the states, counties and cities, revisions of old methods have taken place. In a number of them public accountants perform regular audits of the books and accounts as in industry, while in others they do so at irregular intervals.

Surveys of state, county and city conditions are quite steadily coming into favor.

#### CONDITIONS PRECEDENT TO EFFICIENT PUBLIC ADMINISTRATION

It is recognized by all business men, and even by government officers and employees who will not admit its practicability for public business, that it is necessary to have up-to-date, exact knowledge of all the facts pertaining to the conduct of any business organization. It is well known in modern business that complete and scientific accounting produces a knowledge of affairs which is a condition precedent to successful management.

The experiences and revelations of the past twenty years in the conduct of public administration in states and cities of the United States have demonstrated the same thing regarding management of public business. Officers have found that to direct intelligently they need to be fully informed. It is the duty of government, as in industry, to render, through its officers, the largest possible service at the most economical cost, particularly since social, welfare and commercial services rendered by states and cities have been becoming more costly each year. The problem of the day, therefore, is increased administrative efficiency.

Ex-Governor Alfred E. Smith, member of a political organization of New York heretofore vigorously opposed to the movement for the type of business administrations of state and local governments which began twenty years ago, is now an enthusiastic advocate of it. In a recent address before the five major civic organizations of New York, he stated that the biggest service they can perform is to try to get the city's and the state's business done "in a more businesslike way; in a more economical way; in a way that is more in keeping with the way ordinary private business is so successfully carried on." As an illustration he said that a

five-story state office building required two years to complete as against six months to erect an eighty-five-story office building by business methods, both in the city of New York!

In advocating what I believe to be the chief requirements for the achievement of efficient public administration I do not overlook the obstacles to be met which are not met in business life. It is conceded that there are many existing laws which hamper promptness and speed and require cumbersome procedure not tolerated by business organizations. Other obstacles to progress there are, such as the protection which the civil-service system tends to give in some states and cities to those not disposed to zeal and conscientious service, and the protection afforded by political influences. Nor can the same efficiency be expected where there is the lack of motive and opportunity provided in industry, which gives greater rewards to ability and provides the stimulus of competition.

One might summarize the case as follows:

(1) State legislatures must improve their law making, and their charter revisions, to require more modern administrative organization and procedure.

(2) People must continue to be informed regarding public business and affairs. There must be enlightened public opinion concerning the primal influences and conditions surrounding public service by those who are qualified to be leaders of opinion.

(3) There should be schooling and technical training for public service.

(4) Standards of measurement should be discovered and adopted, by which some test of competency may be made in each government department and service.

(5) Rewards in remuneration for service should be given as in industry.

(6) There must be modern methods in administrative organization, financing, budgeting, purchasing, cost finding and accounting, centrally controlled.

(7) There should be current reporting of conditions and results by departments and officers, for administrative purposes and for placing before the citizens the necessary facts for sound judgment as to fidelity and efficiency in the public service.

There is still a long way to go even to approach ideals of government administration and accountancy, but the tendency is in the right direction. The "gospel of hope" is sound.